5. Macroeconomic performance

Overall, the transition economies performed remarkably well in 2001, particularly in the context of a struggling global economy. Worldwide economic growth was 2.2% in 2001, the lowest rate since 1993. Economic growth in the EU in 2001 was only 1.6%, one-half its growth rate in 2000. World trade in 2001 contracted slightly, a significant contrast from the robust growth of 12.4% in 2000. Most commodity prices fell in 2001, reversing a trend in 1999-2000 of rising prices in many key primary products; this was particularly harmful to many Eurasian countries.

Yet, the transition economies showed impressive resilience to this global downturn, generally more so than other emerging markets. Overall economic growth in the transition region in 2001 was 5.6%, higher than all other transition years but the previous one; in 2000, the region expanded by 6.4% (*Table 10*). Macedonia was the only transition country in 2001 to experience a contracting economy.

Of the three sub-regions, the Eurasian economies expanded the most in 2001, by 6.5%. Russia's relatively robust growth of 5% actually brought down the sub-regional average. The Southern Tier CEE countries grew by almost 5% in 2001; recovery in Romania (5.3% growth) contributed significantly. Northern Tier CEE growth in 2001 was more modest (2.5%), the only sub-region of the three to witness a slowing of economic growth from the previous year; Poland's lackluster performance (1.1% growth in 2001) had much to do with this outcome.

Economic growth projections for 2002 show a continuation of modest growth in the Northern Tier CEE countries (2.6%), and continued strong growth (albeit lower than 2001 performances) in the Southern Tier CEE and Eurasian countries (both 4%). All transition countries have been experiencing expanding economies in 2002.

A key engine of growth has been strong domestic demand. In the CEE countries, all three domestic demand components have played a role; i.e., domestic investment, consumption, and fiscal expansion (or government expenditure). In Eurasia, the growth in domestic demand has stemmed from a sharp rebound in real wages, and strong growth in the agricultural sector.

Nevertheless, 2001 trends in exports and foreign direct investment (FDI) in the CEE countries remained relatively favorable. According to EBRD calculations, Northern Tier CEE exports grew by 8.6% in 2001 (though down from 14.3% in 2000), while Southern Tier CEE exports grew by 6%. Eurasia has been harder hit by the global economy, where export growth was only 1.5% in 2001, far down from 36.6% in 2000. This reflects a continuation of dependence on primary product exports, which in turn have been characterized by unusually large swings in market prices in recent years. In 2000, crude oil prices rose by close to 60%, metals and cotton (two additional key exports in some Eurasian countries) by more than 10%. In 2001, the average price of crude oil declined by 14%; metals and cotton declined from 7% to 9%.

Most of the countries with the highest economic growth rates in recent years are among the economic reform laggards. The salient example is Turkmenistan, which ranks dead last in economic reform progress (*Table 9*) and yet has by far the highest three-year economic growth rate of all the transition countries; 15.2% from 1999-2001 (*Table 10*). In fact, seven of the ten countries which lag the most in economic reform progress are found among the top ten economic growth performers from 1999-2001. In addition to Turkmenistan, this includes Bosnia-Herzegovina and Tajikistan (both 23rd in economic reform progress), Azerbaijan (21st), and Armenia, Albania, and Ukraine (all 18th). Of the eight Northern Tier CEE reform leaders, only Latvia is found in the top ten economic growth performers.

However, if there is a link between high growth and slow reform progress, it may very well be that high growth has enabled these countries to avoid moving forward on reforms, and has occurred despite little reform progress because of the existence of some other (arguably less sustainable) contributing factors. In 1999-2000, the stimulus from energy exports in a bull market played prominently. Perhaps even more important has been the rebound from collapse in economic output. *Figure 15* sheds some light on this trend. The most significant collapses in output as communism dissolved were in Eurasia (particularly in the Caucasus, Turkmenistan, Tajikistan, Ukraine and Moldova; i.e., in most of the countries where economic growth has been most rapid in recent years). Similarly, the 1998 Russian financial crisis created in its wake at least temporary momentum for notable economic growth in Eurasia, stemming from the increase in competitiveness due to currency devaluations and growth in demand from a significant economic partner (in Russia).

The longer term trend evident in *Figure 15* shows that the Northern Tier CEE economies have far outperformed the rest since the transition began. Compared to the Southern Tier and Eurasia, the drop in economic output in the Northern Tier was much more modest (though still significant) at the outset of communism's collapse (less than 20%); the turnaround occurred much sooner (by 1993); and since then, economic activity has grown at a much more sustained and impressive clip overall. From 1994-2001, economic growth in the Northern Tier CEE countries averaged 4%, and did not drop below 2.5%. This rate surpassed economic growth (of 2.5%) in the EU.

Sustained economic growth has not yet occurred in the Southern Tier CEE as a group, though recent tends are promising. From 1994-2001, Southern Tier CEE economies experienced moderate growth on average, though this average widely masks significant volatility over the years, from 8.1% growth in 1996 to a 3% contraction in 1999. In Eurasia, economic growth has been robust since the 1998 financial crisis in Russia (i.e., 6% from 1999-2001). However, prior to that time, the sub-region witnessed a collapse in (officially recorded) economic output from 1989 to 1998 of more than 40% by most estimates.

Coinciding with sustainable economic growth in the Northern Tier CEE since 1993, has been impressive growth (particularly since 1993) in small and medium enterprises (SMEs). *Figure 16* underscores this by comparing trends in the share of economy-wide employment in small enterprises in five Northern Tier CEE countries with a limited sample in Eurasia (Russia, Ukraine, Belarus, and Kazakhstan). By 1997, the share of employment in SMEs in the Northern Tier CEE countries was above 50%, comparable to OECD standards, and much higher than that proportion found in Eurasia, which is closer to 20% in the limited sample. Most of the SMEs are likely new-start firms; and there have been an ample number of studies that have demonstrated that new starts have notably outperformed privatized and public sector firms in the transition region. Hence, even though the private sector share of GDP in some Eurasian countries (such as Russia) may not be far behind private sector shares in CEE, the composition and competitiveness of these private sectors no doubt vary widely.

Figures 17 and *18* highlight another important difference in the private sectors of the transition sub-regions: the size of the unofficial or informal economy. This "sector" consists of both monetary economic activity outside the formal economy as well as barter activity. It is widely recognized that unofficial economic activity is very significant in virtually all the transition countries, and that unofficial income has likely greatly offset official income losses. Measuring the informal economy is by definition very difficult, though there are a variety of ways to get at rough orders of magnitude. Some stem from analyzing household survey data, which is done in some detail in *Appendix II* of *Monitoring Country Progress, No.* 6 (May 2000).[17]

An increasingly common "back-of-the-envelope" technique to measure unofficial economic activity is to compare officially measured economic activity with electricity consumption.[18] From this approach, one finds evidence that many of those countries that have experienced a particularly large decrease in official economic activity have also seen relatively large increases in unofficial economic activity.[19]

Figures 17 and *18* attempt to account for this informal economic activity by combining estimates of the unofficial economy with the officially recorded GDP figures.[20] As

[17] It's also worthy to note that official income statistics are continually being revised, and efforts are often made to include informal economic activity into these figures.

[18] This technique uses aggregate electricity consumption as a proxy for total economic activity (official and unofficial). The difference between the change in electricity consumption and the change in official GDP estimates in any given year is the extent of unofficial economic activity.

[19] Drawing from estimates by Johnson, Kaufmann, and Shleifer (1997), for example, one finds that unofficial economic activity in Eurasia is almost twice as large relative to official GDP as it is in CEE. In Eurasia, it was almost 40% of official GDP on average in 1995 (and still rising); in the CEE, it was closer to 20% (and falling). S. Johnson, D. Kaufmann, and A. Shleifer, "Politics and Entrepreneurship in Transition Economies," *Working Paper Series*, No. 57, The William Davidson Institute, University of Michigan (1997).

[20] Estimates of the size of the informal economy as a percent of official GDP for seventeen countries from 1989 to 1995 were taken from Johnson et. al. These estimates were then combined with official GDP figures to get total economic activity trends through 1995. Next, these trends were updated to 2000 by extrapolating the generally observed inverse relationship between changes in the official economy with changes in the informal sector. For example, an expansion of 15% of official GDP from 1996-2000 would translate into a contraction of 15% in the informal economy; a contraction in the official economy means an expansion of the unofficial economy by an equal proportion. While obviously very rudimentary in technique, the end-result hopefully provides a more complete picture of more current overall economic activity in relation to pre-transition activity (and more realistic implications regarding the scope of

evident in *Figure 17*, adding informal economic activity to official GDP statistics narrows the spread in performance across the countries. The Northern Tier CEE countries are slightly less advanced in economic activity over the transition when this broader measure of economic activity is used; the contraction in informal economic activity started early in the transition for these countries and has slightly outweighed the growth in the formal economy. More striking are the trends in Eurasia where, on balance, economic activity is notably greater when the informal economy is combined with official GDP trends. On average, officially recorded GDP in 2000 is 61% of 1989 GDP; this increases (albeit in a smaller sample) to 71% with the informal sector included. The drop in official GDP has been mitigated the most by the informal economy in Russia, followed by Ukraine, Azerbaijan, Georgia, and Kazakhstan. The informal economy has offset official income drops to a lesser extent in Bulgaria, Moldova, and Latvia. Only two countries in Eurasia show a greater drop in output when the informal economy is included: Uzbekistan and Belarus. In other words, the relatively impressive performance of these two economies vis-à-vis other Eurasian countries is downgraded some by this score.[21]

Consistent with good economic growth performances are very favorable inflation trends (*Table 11*). The average annual inflation rate in 2001 for the transition region as a whole was 19%, lower than in any of the previous transition years. Inflation rates are forecast to be lower still in 2002, across the three sub-regions. Inflation rates have been single-digit in the Northern Tier CEE countries since 1999, and continue to converge towards EU rates; in 2001, 6% vs. 3%, respectively. Only ten transition countries had a 1999-2001 average annual inflation rate greater than 10%; two Southern Tier CEE countries (Romania and Yugoslavia); and eight Eurasian countries.

Fiscal performances have varied widely (*Table 12*), and so too fiscal concerns. Some of the best fiscal performances in recent years have been in the energy-producing Eurasian countries, in particular, Russia, Turkmenistan, Azerbaijan, and to a lesser extent, Kazakhstan. Though prices of oil and many other commodities may have peaked in 2000 (for now), these countries have been able to maintain very favorable fiscal balances, even surpluses in 2001 in the case of Russia, Turkmenistan, and Azerbaijan. At least in the case of Russia, this reflects significant fiscal policy reform.

Of the three sub-regions, fiscal deficits are highest in the Northern Tier CEE. Moreover, 2001 saw a significant increase in the fiscal deficits in the Czech Republic and Poland. Both countries witnessed a fiscal deficit of close to 6% of GDP in 2001. Five of the ten

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hardships). *Table 20* of *Monitoring Country Progress* No. 7 (October 2001) provides the individual country estimates.

[21] Anders Aslund makes further adjustments from official figures to assess economic activity trends through 1995. In addition to including the informal sector, he attempts to account for the significant overestimation of GDP prior to communism's collapse from two sources: (1) those that stemmed from unsalable output (primarily manufacture production that essentially detracted value); and (2) those that derived from implicit trade subsidies in energy within the communist bloc. As expected, the resulting revisions further mitigate the declines in economic output across the transition region through the mid-1990s. Aslund, *The Myth of Output Collapse after Communism*, Carnegie Endowment for International Peace Working Paper, Number 18 (March 2001).

CEE accession countries had fiscal deficits in excess of 3% of GDP (the Czech Republic, Poland, Slovakia, Hungary, and Romania), thus failing to meet a key Maastricht financial criterion for joining the EU.

Some countries (in the Southern Tier CEE and Eurasia) have seemingly unsustainably high fiscal deficits, particularly in the context of high current account imbalances and growing public debt. This group includes Bosnia-Herzegovina (1999-2001 fiscal deficit of 18.4% of GDP), Albania (9.9%), Kyrgyzstan (9.5%), Armenia (6%), Moldova (4.4%), and Georgia (4.3%). Croatia's fiscal deficit is also very high (though falling): 6.4% of GDP from 1999-2001.

Integration into the world economy. How and to what extent these economies integrate into the world economy figure prominently into the type of their transition path and its sustainability. *Tables 13* and *14*, and *Figures 19* through *23* highlight some key aspects of this integration: "institutional integration" (or participation and/or memberships in multinational institutions); export growth and openness to trade; composition and direction of trade; foreign direct investment; current account balances; and external debt.

Institutional integration with the advanced economies remains largely a process confined to the transition countries in CEE. The importance and significance of this, both for the CEE countries and Eurasia, can hardly be overstated. For the CEE countries, membership into the EU and other Western institutions provide a strong incentive as well as a key means for advancement. However, particularly in the case of the EU expansion, the gains accrued to new members are to some extent offset by the cost of exclusion to those countries left on the "sidelines," or, in this case, Eurasia. In a relatively narrow economic sense, this occurs because trade and investment flows are often diverted (to economic union members and away from nonmembers). More broadly, there tend to be host of externalities, positive and negative, that reinforce and augment the trade and investment impacts.

The Czech Republic, Hungary, and Poland continue to have the closest institutional ties with the West (*Table 13*). All three countries are members of the OECD, NATO, and the World Trade Organization (WTO), and all three have made significant progress towards joining the EU.

A total of ten CEE countries have been invited to join the EU, eight countries of the Northern Tier CEE, and Bulgaria and Romania. All but Bulgaria and Romania have "closed" at least twenty-five of the thirty "chapters" in the negotiations towards accession into the EU. As of July 2002, Bulgaria had completed twenty-one chapters, and Romania only thirteen.

Fifteen of the twenty-seven transition countries are now members of the WTO. Only three CEE countries are not yet members: Macedonia; Bosnia-Herzegovina; and Yugoslavia. The only Eurasian countries that *are* members are Kyrgyzstan, Moldova, and Georgia.

By various trade and foreign direct investment measures, the Northern Tier CEE countries are generally much more integrated into the world economy than are the other transition countries (*Tables 13* and *14*, and *Figure 19*). However, as compared to Western Europe and the East Asian industrialized countries, even the Northern Tier CEE countries have considerable scope for expansion of trade and FDI. Of the three transition sub-regions, Eurasia is the least integrated into the world economy, and closer on some measures to the global integration profile of Sub-Saharan Africa.

Exports constitute 18% of GDP (measured in purchasing power parity terms) in the Northern Tier CEE; it's closer to 11% in the Southern Tier CEE countries and only 9% in Eurasia (*Figure 19*). These proportions in the Southern Tier CEE and Eurasian countries are comparable to those found in the relatively inward-oriented countries of Latin America and the Caribbean (10% of GDP) and Sub-Saharan Africa (9% of GDP). Exports as a share of GDP in the EU is about 32%, significantly higher than even in the Northern Tier CEE countries. This suggests that even though the Northern Tier CEE countries have substantially redirected exports to Western Europe since the transition began, there remains significant scope for expansion of the export sectors in the Northern Tier CEE, and, by extension, considerable scope for expansion of trade between Western Europe and the Northern Tier CEE countries.

Comparisons of FDI as a percent of GDP across the globe yield very similar results to the export share comparisons (*Figure 19*). Specifically, FDI as a share of GDP is much higher in the Northern Tier CEE countries than it is elsewhere in the transition region, particularly in Eurasia. FDI share in Eurasia is roughly comparable to that found in Sub-Saharan Africa, though, as with trade share, larger than in South Asia. FDI share in the EU and the East Asian industrialized countries is notably larger than in the transition countries, even in the Northern Tier CEE.

How countries are integrated into the world economy in terms of the composition of exports and trading partners (or the "quality" of global integration) is certainly at least as important as the extent to which countries are integrated (or the "quantity" of integration). *Figures 20* and *21* highlight fundamental differences in this regard between Eurasia and CEE.

More than 70% of exports from the CEE countries now go to the advanced economies, mostly to Western Europe (*Figure 20*). This represents a significant increase from the early transition years; in 1992-1993 roughly 40% of CEE exports went to Western Europe. The share of Eurasian exports to the advanced economies has also increased since the transition began. However, the share was much smaller as the transition began (20% in 1992-1993) and the increase has been very modest (to 30% by 1998-1999).

The Eurasian countries are much more dependent on primary product exports than are the CEE countries (*Figure 21*). Almost one-half of Eurasian exports consist of fuels (oil or gas), metals (including gold, aluminum, copper, and zinc), and/or agricultural raw materials (particularly cotton). This compares to roughly 15% of total exports in CEE. Almost 90% of Turkmenistan's exports are fuels or cotton; roughly 80% of Azerbaijan exports are fuels; between 60-70% of exports from Kazakhstan and Russia are primary products. Prices of these goods continue to be volatile, particularly fuels. Oil prices fell by 32% in 1998, rose 38% in 1999 and 57% in 2000, and fell 11% in 2001. They've resumed their increase in 2002, most recently in no small part because of concerns about a war with Iraq. Price trends of metals and cotton have been similar, though the fluctuations have been more moderate.

Trends in current account balances differ widely across the transition region (*Table 14*). On the one hand, several Eurasian countries have benefited from high energy prices and/or depreciated currencies that in turn have contributed to favorable current account balances. Most notable is Russia, which has incurred current account surpluses ranging from 11-18% of GDP from 1999-2001.

To some extent, as the economies climb out of the "transition trough" and incur robust economic growth, current account deficits can be expected, and may reflect positive developments. Such deficits may be temporary if much of the imports are capital goods that in turn spur an increase in competitiveness and exports. This is certainly part of the story in some CEE countries, in the Northern Tier CEE in particular. In addition, current account deficits are less burdensome if, as is the case in many Northern Tier CEE countries, they can be financed in large part by FDI inflows.

Nevertheless, macroeconomic stability can be at significant risk in the presence of large current account deficits, particularly if they are sustained over several years. Similarly, financing the deficit can contribute to unsustainable debt burdens if alternative sources (such as FDI) are not forthcoming. In this context, there remain many transition countries across the three sub-regions with current account deficits that are too high. In the Northern Tier CEE countries, current account deficits have averaged 8-9% of GDP since 1996 in the three Baltic countries and Slovakia, though are now closer to 6-7% of GDP in Estonia and Lithuania. Of the three sub-regions, current account deficits are highest in the Southern Tier CEE, 7.8% of GDP on average in 2001, and are estimated to be slightly higher in 2002. Only Croatia of this group had a current account deficit of less than 6% of GDP in 2001. In Eurasia, current account deficits are highest in the countries with the highest debt burdens: Armenia (10.3% of GDP in 2001); Moldova (9.0%); Tajikistan (7.2%); Georgia (6.7%); and Kyrgyzstan (5.8%).

Trends in external debt have also varied widely in the transition region (*Table 14*). Overall levels, while increasing, remain below those found in most developing countries. Total debt was roughly 142% of exports in the transition region in 2001; in the developing countries in 2000, it was 173%. Some transition countries have successfully reduced debt burdens. Most notable recently has been the cancellation in November 2001 of roughly 67% of Yugoslavia's debt owed to the Paris Club. Other countries that have succeeded in reducing what were once heavy debt burdens in the beginning of the transition include Bosnia-Herzegovina, Bulgaria, and Poland. Russia and Ukraine have also reduced debt burdens in 2001.

Nevertheless, external debt remains an issue even for some of the more advanced transition countries. Four of the ten CEE countries on the EU accession track exceeded the Maastricht debt ceiling of 60% of GDP in 2001: Bulgaria (76%); Latvia (71%); Hungary (69%); and Estonia (61%). Of greatest concern, however, are high debt burdens of five relatively poor Eurasian countries: Kyrgyzstan; Georgia; Tajikistan; Armenia; and Moldova. Kyrgyzstan's debt burden is highest (2001 external debt is 288% of exports; debt service is 29% of exports). Debt service is also high in Tajikistan (22%) and Moldova (20%). Total external debt as a percent of exports in Georgia and Armenia is close to levels in Kyrgyzstan.

Figures 22 and *23* highlight several relationships stemming from global integration. *Figure 22* shows a close fit between progress in economic reforms in the transition region and FDI. The more progress a country makes in economic reforms, other factors being equal, the greater will be the FDI inflows. To some extent, however, foreign investors are willing to make an exception to this trend if a country is resource-rich, energy-abundant in particular. This explains why Turkmenistan and Azerbaijan fall far outside the trend line in *Figure 22*.

Figure 23 provides some support to the beneficial impacts of economic integration. In particular, it shows that the economies that are most open and/or integrated into the world economy are also the wealthiest; the poorest countries are the most autarchic or inward-oriented. With one exception (Albania), all of these relatively poor and autarchic economies are in Eurasia. There are "outliers" to the relationship implied in this graph as well. The Polish and Russian economies are relatively large and hence are not as dependent on foreign trade (and do not need to be as dependent) as other economies. In contrast, Estonia's economy is relatively small and is hence much more dependent on foreign trade to derive its wealth.

Table 10. Growth in Real GDP (%)

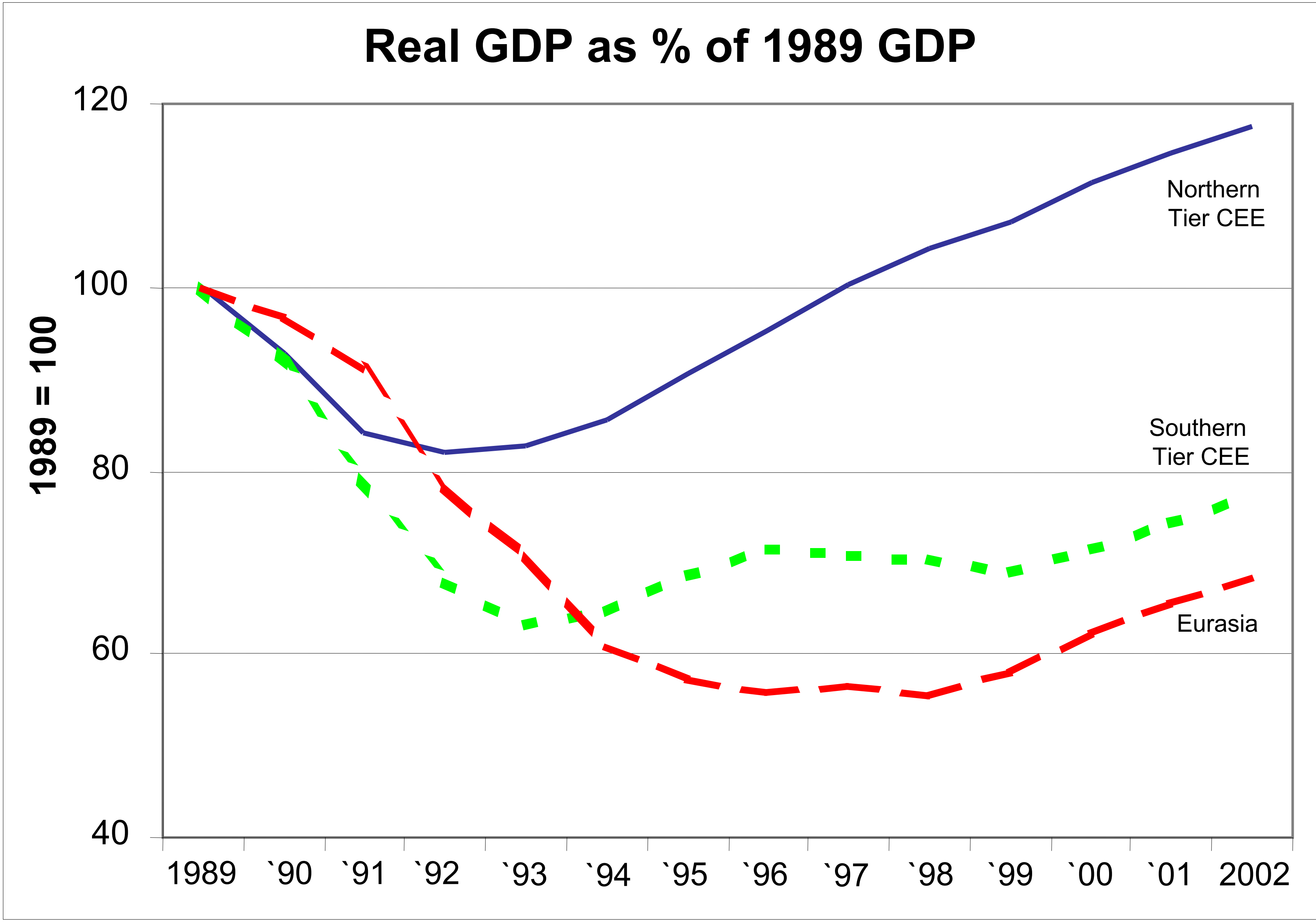
	1994	1995	1996	1997	1998	1999	2000	2001	2002	1999-2001 average
Turkmenistan	-17.3	-7.2	-6.7	-11.3	5.0	16.0	17.6	12.0	8.0	15.2
Azerbaijan	-19.7	-11.8	1.3	5.8	10.0	7.4	11.1	9.9	8.5	9.5
Kazakhstan	-12.6	-8.2	0.5	1.7	-1.9	2.7	9.6	13.2	7.6	8.5
Albania	8.3	13.3	9.1	-7.0	8.0	7.3	7.8	7.3	6.0	7.5
Tajikistan	-18.9	-12.5	-4.4	1.7	5.3	3.7	8.3	10.2	6.0	7.4
Bosnia-Herzegovina	-40.0	20.8	86.0	37.0	10.0	10.0	5.9	5.6	5.0	7.2
Armenia	5.4	6.9	5.9	3.3	7.3	3.3	6.0	9.6	6.5	6.3
Russia	-13.5	-4.2	-3.4	0.9	-4.9	5.4	8.3	5.0	3.5	6.2
Latvia	0.6	-0.8	3.3	8.6	3.9	1.1	6.6	7.6	5.0	5.1
Ukraine	-22.9	-12.2	-10.0	-3.0	-1.9	-0.2	5.9	9.1	4.0	4.9
Kyrgyzstan	-20.1	-5.4	7.1	9.9	2.1	3.7	5.1	5.3	5.0	4.7
Hungary	2.9	1.5	1.3	4.6	4.9	4.2	5.2	3.8	4.0	4.4
Slovenia	5.3	4.1	3.5	4.6	3.8	5.2	4.6	3.0	3.0	4.3
Bulgaria	1.8	2.1	-10.9	-6.9	3.5	2.4	5.8	4.5	3.5	4.2
Uzbekistan	-4.2	-0.9	1.6	2.5	4.4	4.1	4.0	4.5	2.0	4.2
Belarus	-12.6	-10.4	2.8	11.4	8.4	3.4	5.8	3.0	2.0	4.1
Estonia	-2.0	4.6	4.0	10.4	5.0	-0.7	6.9	5.4	4.0	3.9
Georgia	-11.4	2.4	10.5	10.8	2.9	3.0	2.0	4.5	3.0	3.2
Poland	5.2	7.0	6.0	6.8	4.8	4.1	4.0	1.1	1.5	3.1
Croatia	5.9	6.8	6.0	6.5	2.5	-0.4	3.7	4.1	3.5	2.5
Slovakia	4.9	6.7	6.2	6.2	4.1	1.9	2.2	3.3	3.5	2.5
Czech Republic	2.2	5.9	4.8	-1.0	-2.2	-0.4	2.9	3.6	3.5	2.0
Lithuania	-9.8	3.3	4.7	7.3	5.1	-3.9	3.9	5.7	3.5	1.9
FYR Macedonia	-1.8	-1.2	1.2	1.4	3.4	4.3	4.6	-4.6	3.0	1.4
Romania	3.9	7.1	3.9	-6.1	-5.4	-3.2	1.8	5.3	3.5	1.3
Moldova	-31.2	-1.4	-5.9	1.6	-6.5	-3.4	2.1	4.5	3.5	1.1
Yugoslavia	2.5	6.1	7.8	10.1	1.9	-15.7	5.0	5.5	5.0	-1.7

Regional Averages	1994	1995	1996	1997	1998	1999	2000	2001	2002	1999-2001 average
CEE & Eurasia	-9.4	-2.2	-0.2	1.9	-0.5	2.9	6.4	5.6	3.7	4.9
Northern Tier CEE	3.4	5.5	4.9	5.5	3.8	2.8	4.0	2.5	2.6	3.1
Southern Tier CEE	0.8	7.1	8.1	1.1	0.2	-2.9	3.9	4.9	4.0	2.0
Eurasia	-14.7	-6.0	-3.1	1.1	-1.8	4.0	7.4	6.5	4.0	6.0
European Union	2.8	2.4	1.7	2.6	2.7	2.6	3.4	1.6	1.1	2.5
Advanced Countries	3.3	2.7	3.0	3.4	2.7	3.3	3.9	0.8	1.7	2.7
Developing Countries	6.7	6.1	6.5	5.8	3.5	3.9	5.7	4.0	4.3	4.5

Benchmarks (a) 3 years positive economic growth, (b) 3 year average growth rate of 2% or more

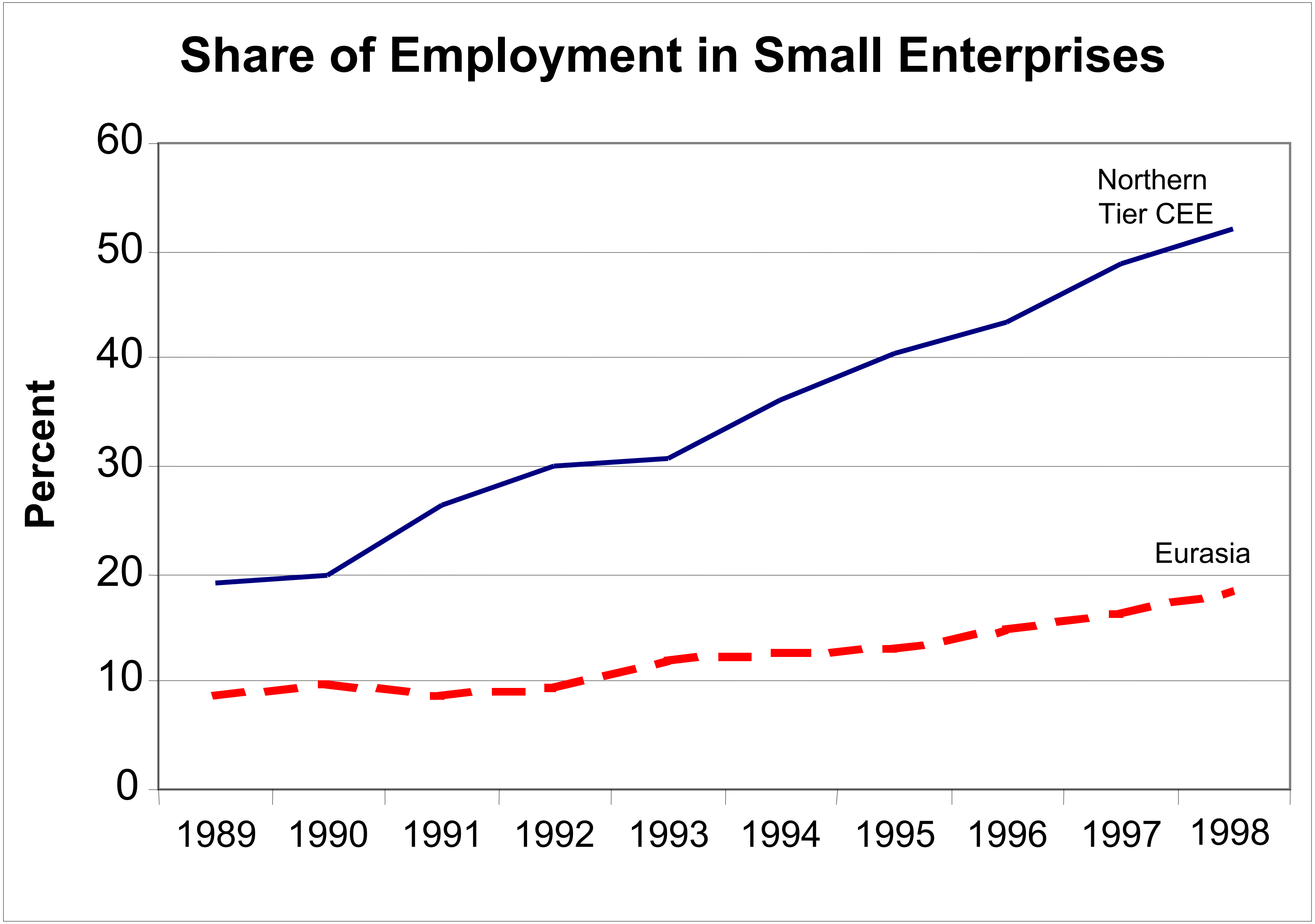
These figures should be interpreted only as indicative of broad orders of magnitude in large part because the growth of output of new private enterprises of the informal economy is not fully reflected, particularly in recent years. IMF, *World Economic Outlook* (September 2002); EBRD, *Transition Report Update* (May 2002). 2002 data are projections.

Figure 15



EBRD, *Transition Report Update* (May 2002).

Figure 16



The World Bank, *Transition: The First Ten Years; Analysis and Lessons for Eastern Europe and the Former Soviet Union* (2002) . The averages are unweighted. Countries in Northern Tier CEE include Hungary, Czech Rep., Poland, Lithuania, and Latvia. Countries in Eurasia include Russia, Ukraine, Belarus and Kazakhstan.

Figure 17

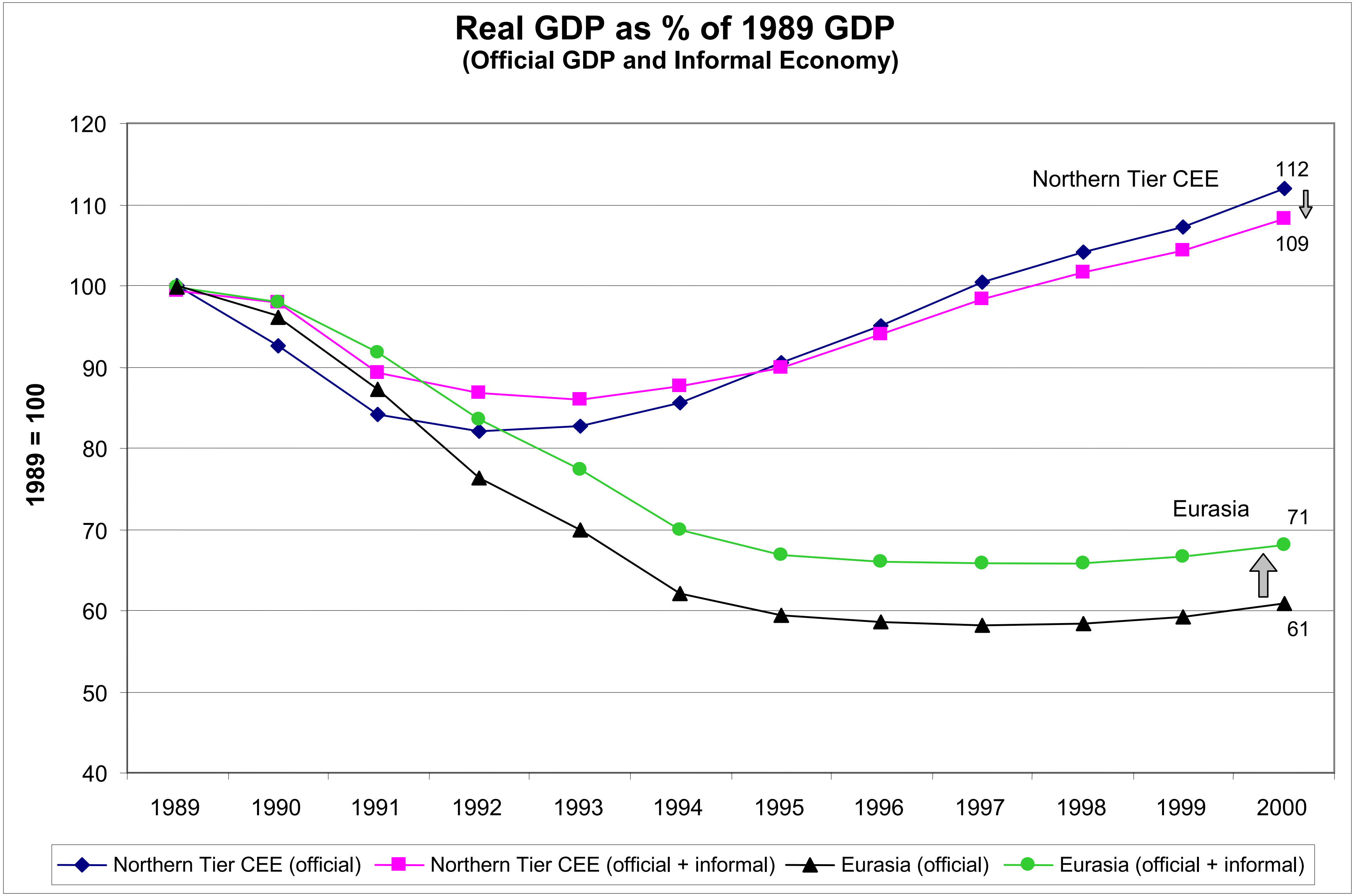


Table 20, *Monitoring Country Progress No. 7* (October 2001), drawing from EBRD, *Transition Report Update* (April 2001); A. Aslund, The Myth of Output Collapse after Communism, Working Paper No. 18, Carnegie Endowment for the International Peace (March 2001), S. Johnson, D. Kaufmann, and A Shleifer, *Politics and Entrepreneurship in Transition Economies*, Working Paper Series, No. 57, The William Davidson Institute, University of Michigan (1997).

Figure 18

Real GDP as % of 1989 GDP

(Official GDP and Informal Economy)

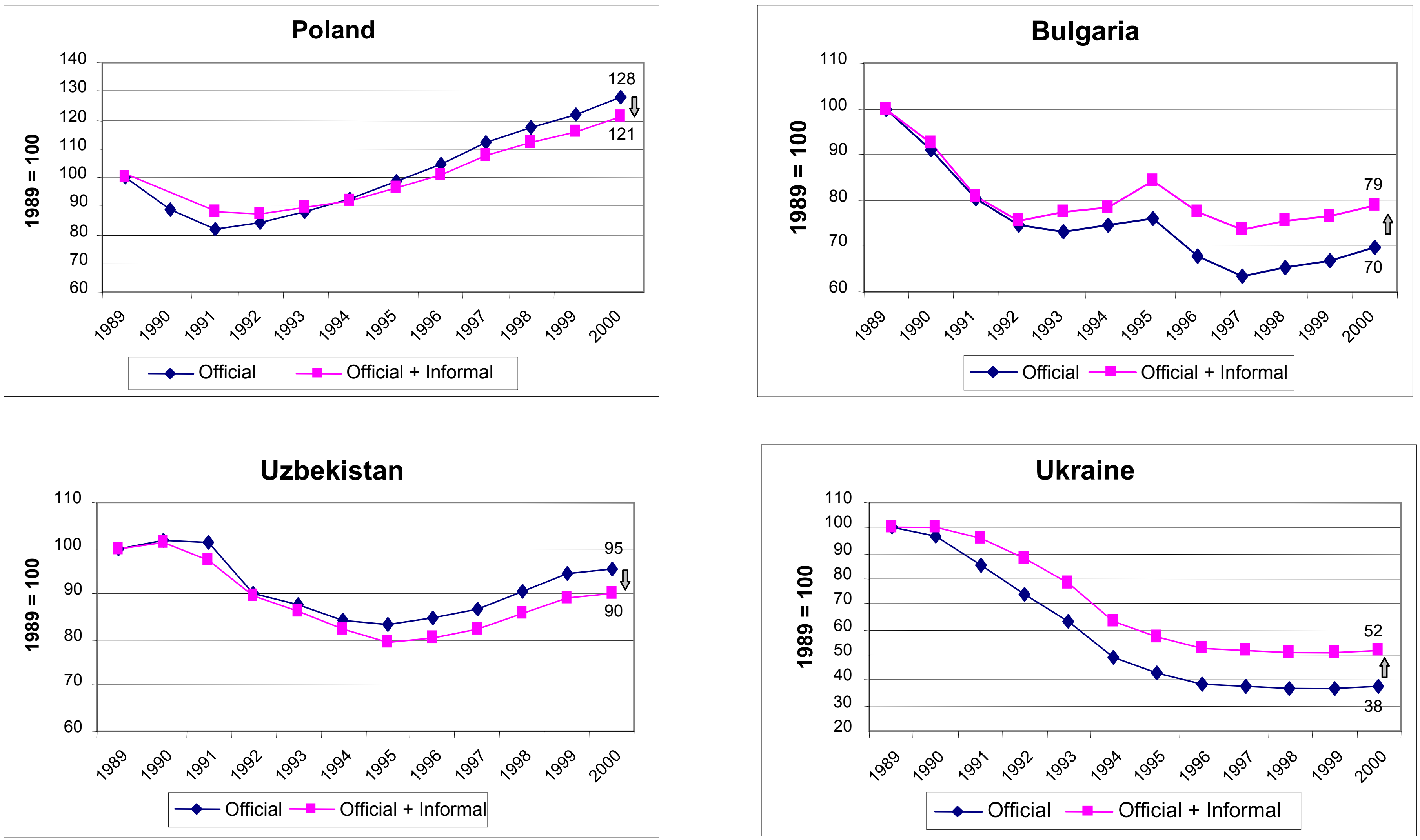


Table 20, *Monitoring Country Progress No. 7* (October 2001), drawing from EBRD, *Transition Report Update* (April 2001); A. Aslund, The Myth of Output Collapse after Communism, Working Paper No. 18, Carnegie Endowment for the International Peace (March 2001), S. Johnson, D. Kaufmann, and A Shleifer, *Politics and Entrepreneurship in Transition Economies,* Working Paper Series, No. 57, The William Davidson Institute, University of Michigan (1997).

Table 11. Inflation

	1995	1996	1997	1998	1999	2000	2001	2002	2000-01	1999-01
Azerbaijan	412	20	4	-1	-9	2	2	3	2	-2
Lithuania	40	25	9	5	1	1	1	1	1	1
Armenia	176	19	14	9	1	-1	3	3	1	1
Albania	8	13	33	21	0	0	3	4	2	1
Bosnia-Herzegovina	-4	-25	14	5	0	2	3	2	3	2
Latvia	25	18	8	5	2	3	2	4	3	3
FYR Macedonia	16	3	1	2	-1	7	5	4	6	3
Czech Republic	9	9	9	11	2	4	5	3	4	4
Estonia	29	23	11	8	3	4	6	3	5	4
Croatia	2	4	4	6	4	6	5	3	6	5
Bulgaria	62	123	1,082	22	1	10	7	8	9	6
Poland	28	20	15	12	7	10	6	3	8	8
Slovenia	14	10	8	8	6	9	8	7	9	8
Georgia	163	39	7	4	19	4	5	5	4	9
Hungary	28	24	18	14	10	10	9	6	9	10
Slovakia	10	6	6	7	11	12	7	4	10	10
Kazakhstan	176	39	17	7	8	13	8	5	11	10
Turkmenistan	1,005	992	84	17	24	8	12	14	10	15
Kyrgyzstan	41	31	26	12	36	19	7	7	13	21
Ukraine	377	80	16	11	23	28	12	5	20	21
Uzbekistan	305	54	59	18	29	24	26	31	25	27
Moldova	30	24	12	8	39	31	10	10	21	27
Tajikistan	609	418	88	43	28	33	39	14	36	33
Romania	32	39	155	59	46	46	35	24	40	42
Russia	198	48	15	28	86	21	22	17	21	43
Yugoslavia	79	94	21	30	37	60	91	24	76	63
Belarus	709	53	64	73	294	169	61	43	115	175

REGIONAL AVERAGES	1995	1996	1997	1998	1999	2000	2001	2002	2000-01	1999-01
CEE & Eurasia	200	61	50	22	49	24	19	13	22	31
Northern Tier CEE	24	18	13	11	7	9	6	4	7	7
Southern Tier CEE	39	53	284	35	26	33	35	16	34	31
Eurasia	277	74	23	22	64	26	20	15	23	37
European Union	2.9	2.5	1.8	1.5	1.4	2.3	2.6	2.0	2.5	2.1
Advanced Countries	2.6	2.4	2.1	1.5	1.4	2.3	2.2	1.3	2.3	2.0
Developing Countries	23.2	15.4	10.0	10.6	6.9	6.1	5.7	5.8	5.9	6.2
Benchmarks									< 10.0	< 15.0

Retail/consumer prices, annual average.

IMF, *World Economic Outlook* (April 2002); EBRD, *Transition Report Update* (May 2002). 2002 data are projections.

Table 12. Fiscal Balance as Percent of GDP

	1994	1995	1996	1997	1998	1999	2000	2001	2002	1999-01 average
Russia	-10.4	-6.1	-8.9	-8.0	-7.9	-3.3	3.0	2.9	0.0	0.9
Turkmenistan	-2.3	-2.6	0.3	0.0	-2.6	0.0	0.4	0.8	-1.0	0.4
Bulgaria	-3.9	-5.7	-10.4	-2.1	0.9	-1.0	-1.1	-0.9	-0.8	-1.0
Belarus	-3.5	-2.7	-1.8	-1.2	-0.5	-1.7	0.3	-1.8	-0.7	-1.1
Slovenia	-0.2	-0.3	-0.2	-1.7	-1.4	-0.9	-1.3	-1.2	-2.9	-1.1
FYR Macedonia	-2.7	-1.0	-1.4	-0.4	-1.7	0.0	2.5	-6.0	-3.4	-1.2
Azerbaijan	-12.1	-4.9	-2.8	-1.6	-3.9	-4.7	-0.6	1.5	-0.1	-1.3
Tajikistan	-4.6	-3.3	-5.8	-3.3	-3.8	-3.1	-0.6	-0.1	-1.0	-1.3
Estonia	1.4	-0.6	-1.9	2.2	-0.3	-4.6	-0.7	0.4	-1.0	-1.6
Uzbekistan	-6.1	-4.1	-7.3	-2.4	-3.0	-2.7	-1.2	-1.0	-2.5	-1.6
Ukraine	-8.7	-6.1	-3.2	-5.4	-2.8	-2.4	-1.3	-1.6	-2.0	-1.8
Kazakhstan	-7.7	-3.4	-5.3	-7.0	-8.0	-5.2	-1.0	-1.1	-2.0	-2.4
Yugoslavia	…	-4.3	-3.8	-7.6	-5.4	…	-0.8	-1.9	-5.6	-2.8
Latvia	-4.4	-3.9	-1.8	0.3	-0.8	-3.9	-3.3	-1.8	-2.5	-3.0
Hungary	-7.5	-6.7	-5.0	-4.8	-4.8	-3.4	-3.4	-3.3	-3.1	-3.4
Romania	-2.2	-2.5	-3.9	-4.6	-5.0	-3.5	-3.7	-3.5	-3.0	-3.6
Slovakia	-1.5	0.4	-1.3	-5.2	-5.0	-3.6	-3.6	-3.9	-3.5	-3.7
Georgia	-7.4	-5.3	-7.3	-6.7	-5.4	-6.7	-4.1	-2.0	-1.9	-4.3
Lithuania	-4.8	-4.5	-4.5	-1.8	-5.9	-8.5	-2.7	-1.7	-1.5	-4.3
Poland	-2.2	-3.1	-3.3	-3.1	-3.2	-3.7	-3.2	-6.0	-5.0	-4.3
Moldova	-19.2	-13.1	-15.2	-14.1	-5.7	-5.4	-4.0	-3.9	…	-4.4
Czech Republic	-1.1	-1.4	-0.9	-1.7	-2.0	-3.3	-4.8	-5.7	-8.0	-4.6
Armenia	-16.5	-9.0	-8.5	-5.8	-4.9	-7.4	-6.3	-4.3	-3.6	-6.0
Croatia	1.2	-1.4	-1.0	-1.9	-1.0	-6.5	-6.9	-5.7	-4.3	-6.4
Kyrgyzstan	-5.2	-4.5	-8.8	-8.8	-11.2	-12.8	-9.6	-6.0	-4.9	-9.5
Albania	-12.6	-10.1	-12.1	-12.6	-10.4	-11.4	-9.1	-9.2	-8.6	-9.9
Bosnia-Herzegovina	…	-0.3	-4.4	-0.5	-19.3	-22.0	-20.4	-12.8	-3.7	-18.4

REGIONAL AVERAGES	1994	1995	1996	1997	1998	1999	2000	2001	2002	1999-01 average
CEE & Eurasia	-7.4	-4.9	-6.0	-5.6	-5.4	-3.7	-0.6	-0.8	-2.0	-1.7
Northern Tier CEE	-2.8	-3.1	-3.0	-3.0	-3.3	-3.8	-3.4	-4.8	-4.7	-4.0
Southern Tier CEE	-3.0	-3.7	-5.1	-5.0	-5.0	-5.3	-4.2	-4.0	-3.7	-4.5
Eurasia	-9.2	-5.6	-7.0	-6.4	-6.0	-3.4	0.8	0.8	-0.9	-0.6
European Union	-5.6	-5.3	-4.3	-2.4	-1.6	-0.7	0.9	-0.8	-1.3	-0.2
Advanced Countries	-4.1	-3.9	-3.1	-1.7	-1.4	-1.0	0.0	-1.2	-2.0	-0.7
Developing Countries	-3.7	-3.2	-3.3	-3.5	-4.9	-5.3	-4.1	-4.8	-4.8	-4.7
European Union Target										-3.0
Benchmark										-3.0

Data for 2002 are projections. Yugoslavia's three year aveage is for 2000-2002.
Fiscal balance is overall general balance (i.e. all levels of government).
EBRD, *Transition Report Update* (May 2002); IMF, *World Economic Outlook: Recessions and Recoveries* (April 2002).

Table 13. Integration into the World Economy: Trade and Institutional Integration

Country	Real Export Growth (% Change) 2000	2001	Growth in Real Trade less GDP growth 1990-00	Openness to Trade[1] (Exports % of PPP GDP) 1993-94	1996-97	1999-00	Institutional[2] Integration 2002
Czech Republic	17.1	12.0	9.8	17	22	25	(1) (2) (3) (4) (5)
Hungary	21.8	9.1	8.8	12	19	22	(1) (2) (3) (4) (5)
Poland	17.5	8.0	8.4	9	12	12	(1) (2) (3) (4) (5)
Slovakia	15.9	6.5	9.3	20	22	22	(1) (2) (4) (6)
Estonia	…	…	9.9	32	30	32	(2) (4) (5)
Slovenia	12.7	6.2	0.5	33	37	32	(2) (4) (5)
Bulgaria	24.2	12.5	3.3	10	15	14	(2) (4) (6)
Latvia	12.8	6.5	5.3	26	20	19	(2) (4) (6)
Lithuania	12.9	10.2	10.0	20	20	18	(2) (4) (6)
Romania	23.9	10.6	7.9	5	7	8	(2) (4) (6)
Kyrgyzstan	…	…	-1.8	12	9	4	(2)
Croatia	8.7	9.0	4.5	25	26	24	(2)
Georgia	…	…	24.7	10	5	7	(2)
Albania	…	…	7.7	3	3	6	(2)
Moldova	7.5	16.4	12.1	13	10	7	(2)
FYR Macedonia	19.2	…	7.2	15	15	16	(4)
Belarus	…	…	-5.8	27	21	25	
Tajikistan	…	…	…	11	12	11	
Turkmenistan	…	…	2.4	14	10	11	
Kazakhstan	23.9	-3.0	-4.3	11	11	11	
Ukraine	11.7	10.2	6.3	8	12	10	
Russia	6.0	4.0	0.7	10	10	9	
Azerbaijan	17.8	16.4	13.2	13	6	8	
Uzbekistan	-5.6	1.5	0.5	12	8	6	
Armenia	20.1	14.1	-12.7	15	4	4	
Bosnia-Herzegovina	…	…	-1.0	…	…	…	
Yugoslavia	15.3	…	…	…	…	…	
CEE & Eurasia	11.3	6.5	3.6	11	12	11	
Northern Tier CEE	17.4	8.6	9.6	14	17	18	
Southern Tier CEE	20.4	10.8	5.9	9	11	11	
Eurasia	7.8	5.3	1.9	11	10	9	
Europe EMU						32	
High Income Countries						…	
Latin America and the Caribbean						10	
Sub-Saharan Africa						9	

1. Openness to trade is exports of goods and services expressed as a percentage of PPP GDP.
2. Institutional integration refers to membership or participation in (1) OECD, (2) WTO, (3) NATO; (4) Europe Agreements with EU; (5) invited to participate in the next round of negotiations toward EU membership (July 16, 1997); (6) invited to participate in next round of negotiations toward EU membership.

EBRD, *Transition Report Update* (May 2002); World Bank, *World Development Indicators 2002* (2002). Data for 2002 are projections.

Table 14. Integration into the World Economy: FDI, Debt and Current Account Balance

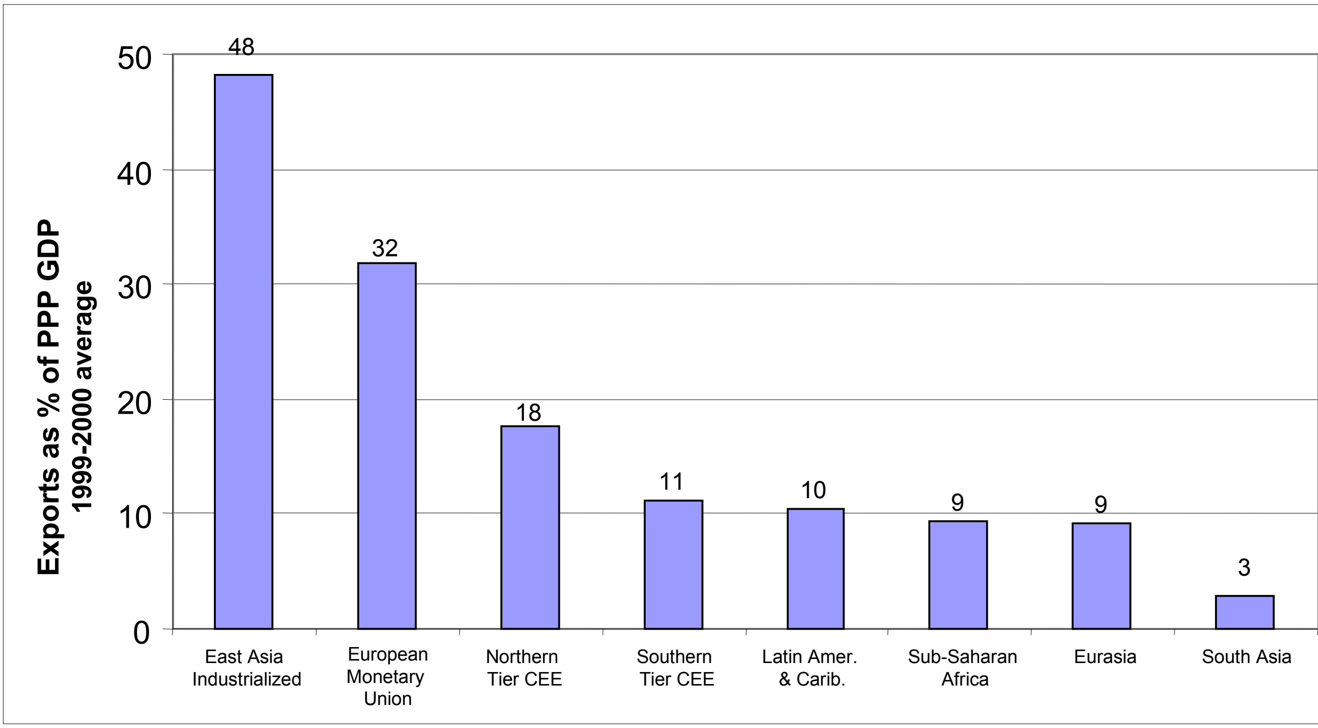
Country	Foreign Direct Investment (net inflows in U.S. $ per capita)		Gross FDI as a % of PPP GDP	Current Account Balance (% of GDP)			External Debt (% of exports)			
			Average				Debt		Debt Service	
	1989-2001	2001	1999-00	1998-00	2001	2002	1997	2001	1997	2001
Czech Republic	2,570	468	3.6	-3.2	-4.7	-4.5	68	52	15	6
Hungary	2,177	219	1.9	-4.0	-2.3	-1.7	96	95	38	15
Poland	890	168	2.8	-6.1	-3.9	-3.7	160	204	7	8
Slovakia	1,050	278	2.6	-6.3	-8.9	-5.1	84	75	12	19
Estonia	1,637	243	3.6	-6.8	-6.5	-6.8	71	66	4	7
Slovenia	925	169	0.7	-2.5	-0.4	-0.9	39	60	8	14
Bulgaria	491	79	2.1	-3.9	-6.7	-6.3	156	132	14	16
Latvia	1,200	129	2.4	-9.1	-10.0	-8.6	96	156	11	15
Lithuania	771	122	2.1	-9.8	-5.8	-6.4	63	90	11	28
Romania	356	52	0.8	-4.8	-6.1	-6.1	95	89	20	21
Kyrgyzstan	101	8	0.4	-14.3	-5.8	…	201	288	12	29
Croatia	1,065	105	3.9	-5.4	-2.9	-2.0	91	115	10	19
Georgia	157	19	0.8	-7.7	-6.7	-5.8	228	275	5	15
Albania	241	65	0.8	-6.7	-7.4	-6.0	328	---	6	5
Moldova	116	14	1.0	-9.0	-9.0	-9.1	130	217	14	20
FYR Macedonia	444	223	1.0	-5.5	-9.9	-9.0	86	99	9	19
Belarus	132	8	0.2	-3.2	1.8	-0.4	13	---	2	3
Tajikistan	24	1	…	-6.3	-7.2	-6.1	218	139	15	22
Turkmenistan	189	24	0.9	-15.1	-1.6	-1.4	132	85	28	42
Kazakhstan	741	162	1.9	-0.8	-7.8	-6.3	117	136	25	12
Ukraine	79	11	0.3	2.3	3.7	1.0	49	55	8	6
Russia	67	14	0.5	10.3	11.1	5.2	160	148	11	12
Azerbaijan	501	39	1.4	-15.4	-2.4	-22.5	52	61	7	6
Uzbekistan	30	3	…	0.1	-0.5	0.6	64	159	9	30
Armenia	213	30	2.6	-17.8	-10.3	-10.5	206	268	14	12
Bosnia-Herzegovina	117	38	…	-20.4	-17.9	-18.3	407	234	38	14
Yugoslavia	130	14	…	-6.4	-10.2	-12.6	330	405	3	2
CEE & Eurasia	380	63	1.1	0.9	1.7	-0.8	131	142	12	13
Northern Tier CEE	1,332	223	2.7	-5.6	-4.4	-3.9	121	144	13	11
Southern Tier CEE	423	59	1.4	-6.3	-7.8	-8.0	183	174	15	15
Eurasia	126	22	0.6	4.0	5.2	1.4	124	135	11	13
Europe EMU			10.2							
Advanced Economies										
Sub-Saharan Africa			0.6							14
Latin America and the Caribbean			2.7							42
Less Developed Countries			1.2							21
Benchmarks									Debt service less than 20%	

Note: Foreign direct investment figures for 1989-2001 are cumulative.

EBRD, *Transition Report Update* (May 2002); World Bank, *World Development Indicators 2002* (2002).

Figure 19

Integration Into the World Economy



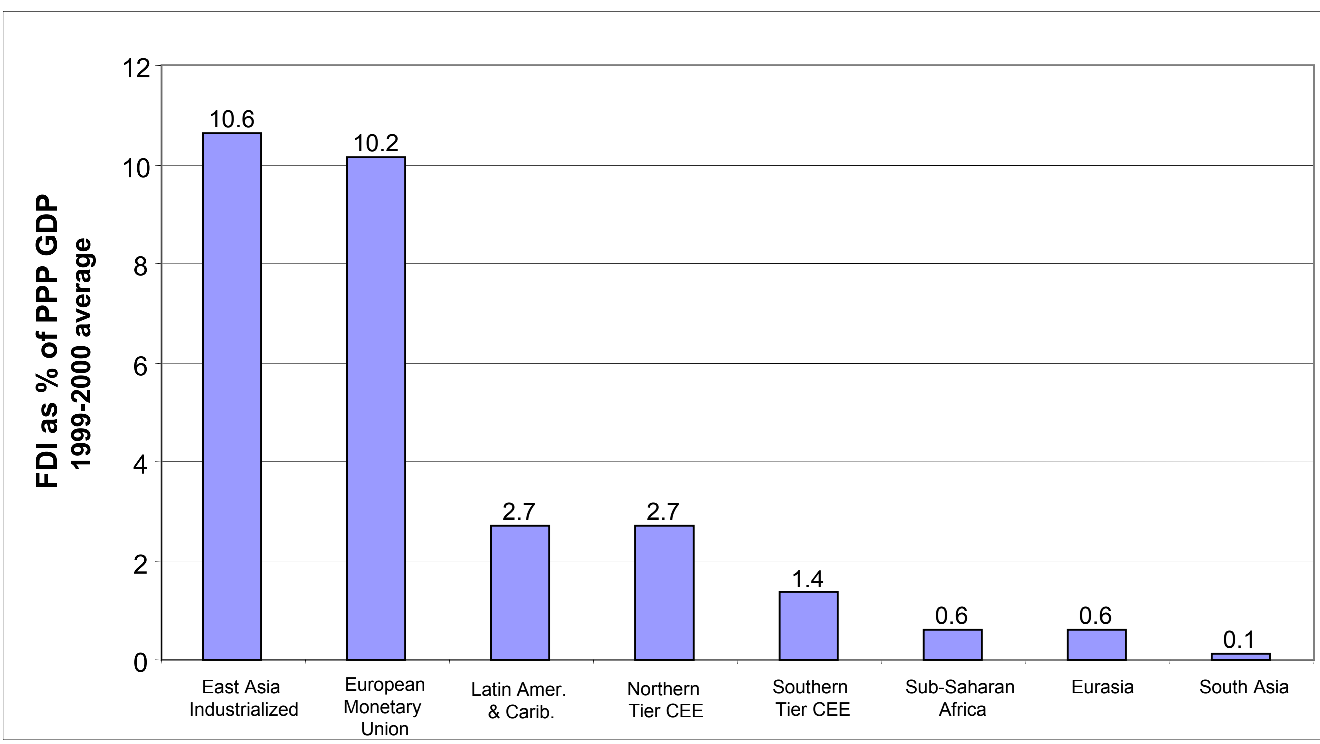
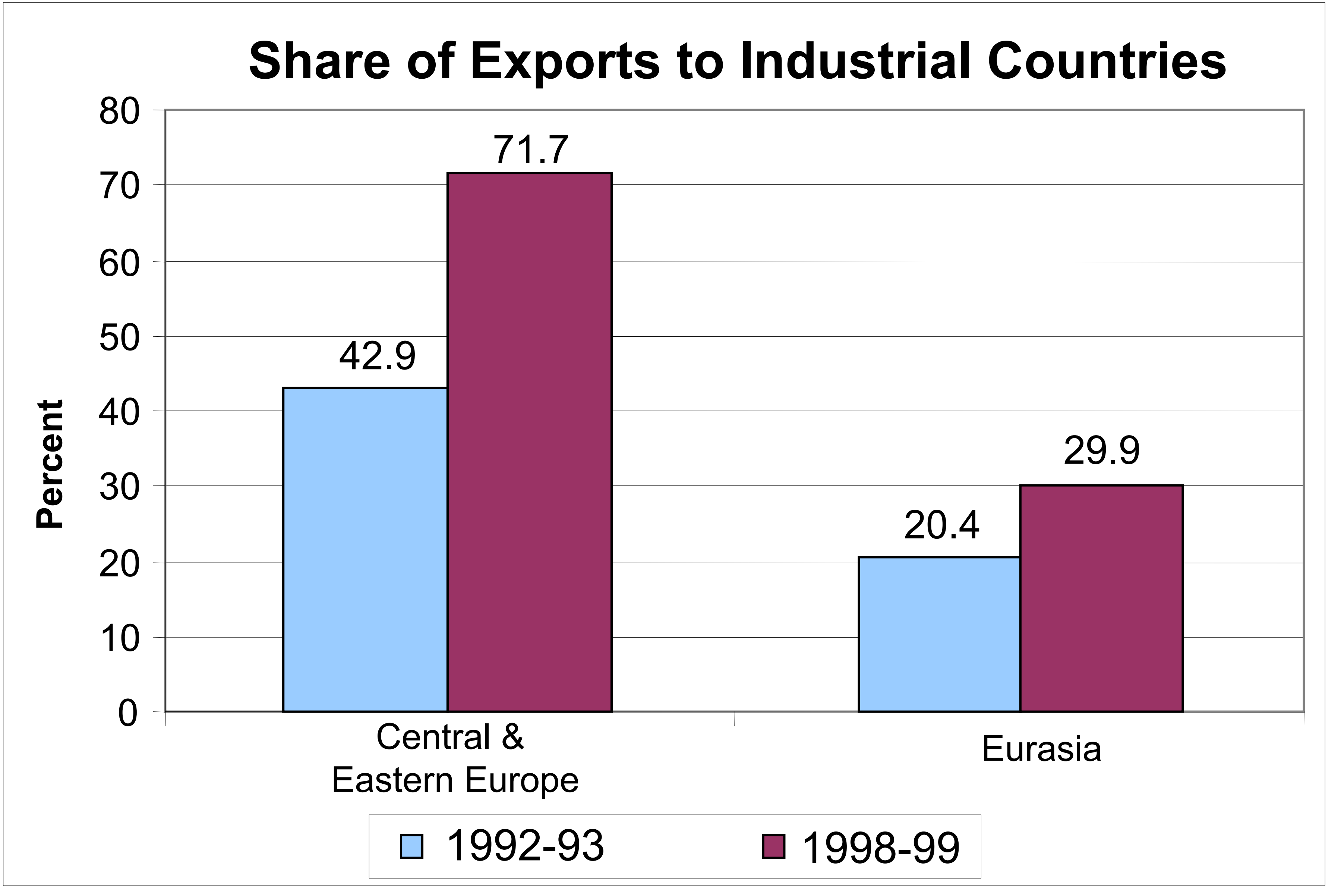


Table 13 and Table 14 drawing from World Bank, *World Development Indicators 2002* (2002). East Asia Industrialized countries are Hong Kong, South Korea and Singapore.

Figure 20

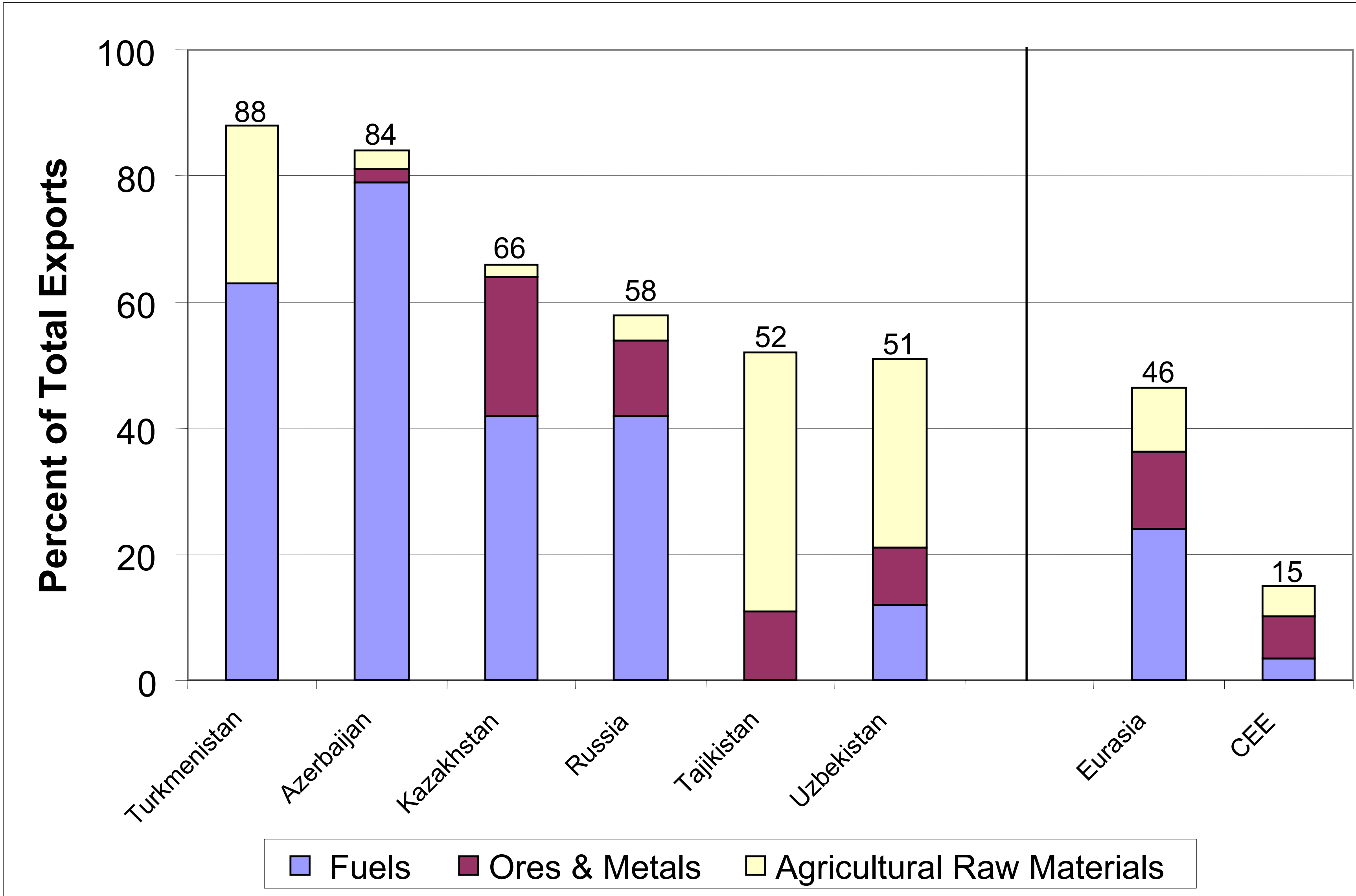


The World Bank, *Transition: The First Ten Years; Analysis and Lessons for Eastern Europe and the Former Soviet Union* (2002) .

Figure 21

Share of Primary Product Exports

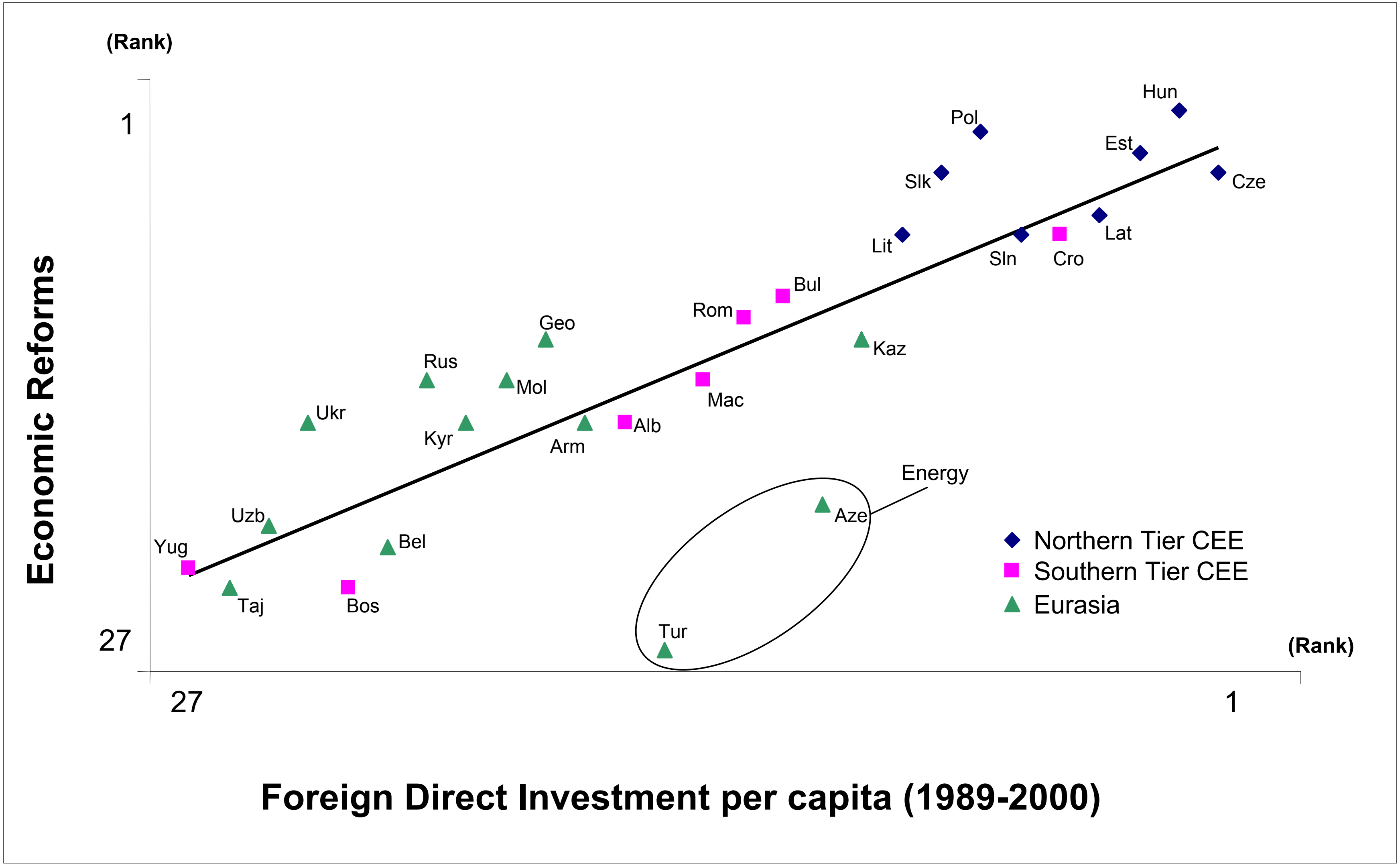
(2000 or latest year available)



EBRD, *Transition Report 2001 (November 2001)*; World Bank, *World Development Indicators* (2002); U.S. Dept of Commerce, International Trade Data Base (1999).

Figure 22

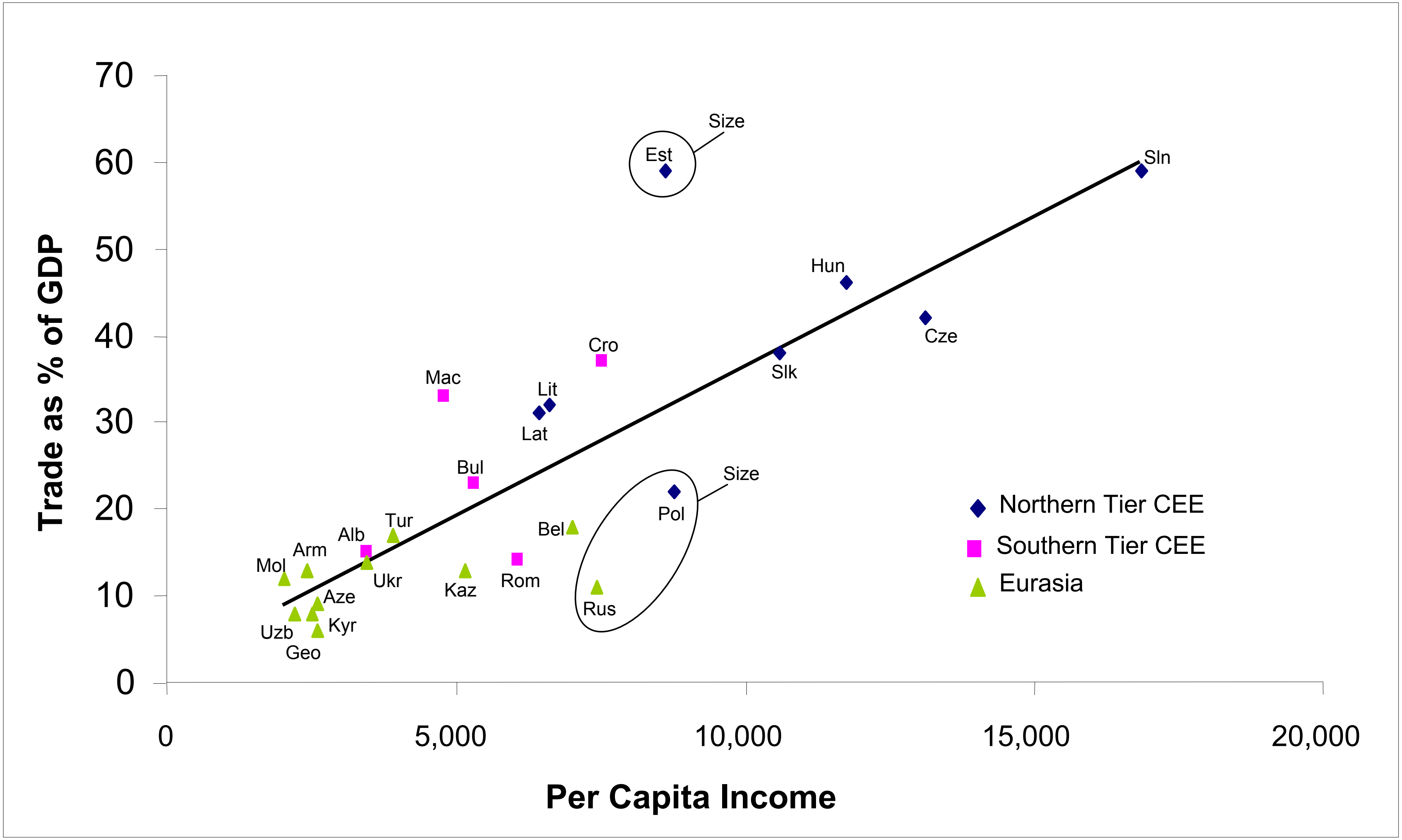
Economic Reforms and Integration Into the World Economy



Tables 8 and 15, *Monitoring Country Progress No. 7* (October 2001), drawing from EBRD, *Transition Report Update* (April 2001), and EBRD, *Transition Report 2000* (November 2000).

Figure 23

Integration into the World Economy and Per Capita Income



Tables 14 and 19, *Monitoring Country Progress No. 7* (October 2001), drawing from EBRD, *Transition Report Update* (April 2001); World Bank, *World Development Indicators* (2001). Openness to trade is the sum of merchandise exports plus imports expressed as a percentage of purchasing power parity GDP. Per capita income is measured in purchasing power parity (PPP) dollars, using 1999 World Bank estimates and updating to 2000 with 2000 per capita economic growth rates.